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OFFICE OF MANAGEMENT AND BUDGET
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TO THE HEADS, INSPECTORS GENERAL, AND CHIEF FINANCIAL OFFICERS OF
EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audit Requirements for Federal Financial Statements

1. Purpose. This bulletin, which includes an attachment and Appendices A-G, establishes minimum requirements for audits of Federal financial statements. The bulletin is issued under the authority of the Budget and Accounting Act of 1921 (42 Stat. 20), as amended, and the Budget and Accounting Procedures Act of 1950 (64 Stat. 832), as amended. It implements the audit provisions of the Chief Financial Officers (CFO) Act of 1990 (Pub. L. No. 101-576), as amended, the Government Management Reform Act (GMRA) of 1994 (Pub. L. No. 103-356), and the Federal Financial Management Improvement Act of 1996 (Pub. L. No. 104-208, title VIII). The requirements of this bulletin are set forth in the attachment.
2. Applicability. The provisions of this bulletin apply to audits of financial statements of executive departments, agencies, and government corporations (Appendices A, C, and D) and certain components of these agencies (Appendix B).
3. Rescissions. The provisions of this bulletin supersede the provisions in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, and related technical amendments included in OMB Memorandum M-04-22, *Amendments to OMB Bulletin No. 01-02, Audit Requirements for Federal Financial Statements*.
4. Effective Date. The provisions of this bulletin are effective immediately for audits of financial statements, unless stipulated otherwise. Audit reports shall be submitted to the agency head in sufficient time to enable the agency head to meet the deadline for submitting the audited financial statements no later than 45 days after the fiscal year-end.
5. Inquiries. Further information concerning this bulletin may be obtained from the Office of Management and Budget, Office of Federal Financial Management at 202-395-3993.
6. Copies. Individual copies of this bulletin may be obtained from the OMB website at <http://www.whitehouse.gov/omb/financial/index.html>.

Rob Portman

Attachment

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SUMMARY OF SIGNIFICANT CHANGES

SECTION TITLE	SECTION NUMBER	CHANGE
Background	1	Added discussion on the agencies subject to the Accountability of Tax Dollars Act and the Government Corporation Control Act.
Definitions	2	Revised definitions of material weakness, reportable condition, and significant deficiency to be consistent with SAS 112 and the U.S. Government Auditing Standards. Definitional changes are also consistent with definitions contained in OMB Circular A-123.
Communication	5	Added discussion on communication of material misstatements affecting previously issued financial statements.
Scope of the Audit	6	Added references to the Statement of Social Insurance. Added discussion on service organizations and use of SAS 70 audit reports.
Audit Report	7	Added discussion on compliance with FMFIA and OMB Circular A-123, Appendix A. Added discussion on subsequent discovery of facts.
Management Representation Letter	8	Added representation on consistency of budgetary data used to prepare the Statement of Budgetary Resources and SF-133.
Appendix D		Added this appendix listing the government corporations.

AUDIT REQUIREMENTS FOR FEDERAL FINANCIAL STATEMENTS

SECTION 1: BACKGROUND

1.1 The Government Management Reform Act (GMRA) of 1994 (Pub. L. No. 103-356) amended the requirements of the Chief Financial Officers (CFO) Act of 1990 (Pub. L. No. 101-576) by requiring, among other things, the annual preparation and audit of organization wide financial statements of the 24 major executive departments and agencies (Appendix A). The GMRA also requires audited financial statements of components of executive departments and agencies designated by the Director of the Office of Management and Budget (OMB), which are identified in Appendix B.

1.2 The Accountability of Tax Dollars Act (ATDA) of 2002 (Pub. L. No. 107-289) (Appendix C) amended the CFO Act further to extend the requirements of the annual preparation and audit of organization wide financial statements to the remainder of the executive agencies not already required to do so through another provision of Federal law.

1.3 Government Corporation Control Act (59 Stat. 597, codified at 31 U.S.C. § 841-869) (Appendix D) requires, among other things, the annual preparation and audit of organization wide financial statements of “mixed-ownership” and “wholly owned” Government corporations.

SECTION 2: DEFINITIONS

For the purposes of this bulletin, the following definitions apply:

2.1 **Annual Financial Statement** means the financial statement of a reporting entity as described in Section 3515 of Title 31 of the United States Code and OMB Circular A-136, *Financial Reporting Requirements*, as amended (A-136). The “Annual Financial Statement” shall consist of:

- Management's Discussion and Analysis (part of RSI).
- Basic Statements. The basic statements¹ shall include:
 - Balance Sheet.
 - Statement of Net Cost.
 - Statement of Changes in Net Position.
 - Statement of Budgetary Resources.
 - Statement of Financing.
 - Statement of Custodial Activity, if applicable.
 - Statement of Social Insurance, if applicable.
 - Related Note Disclosures.
- Required Supplementary Stewardship Information (RSSI), if applicable.
- Required Supplementary Information (RSI), if applicable.

¹ This list is included in the A-136, which prescribes the Basic Statements that shall be prepared.

- Other Accompanying Information, if applicable.

2.2 **Codification of Statements on Auditing Standards** is a codification of Statements on Auditing Standards (AU) issued by the American Institute of Certified Public Accountants (AICPA). The AICPA's standards of field work and reporting are incorporated in their entirety in U.S. Government Auditing Standards by reference.

2.3 **Federal Financial Management Improvement Act of 1996 (FFMIA) (Pub. L. No. 104-208, title VIII) section 803(a) requirements** are Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. The 24 major CFO Act agencies are required to establish and maintain financial management systems that comply substantially with these requirements. Agencies subject to the ATDA and Government Corporation Control Act are not subject to the requirements of FFMIA, with the exception of government corporations that are also components of one of the 24 major CFO Act agencies. Those government corporations are subject to FFMIA similar to all other components of the CFO Act agencies. The government corporations however are not required to report separately on compliance with FFMIA in its management reports.

2.4 **Federal Managers' Financial Integrity Act (FMFIA) (Pub. L. No. 97-255, codified at 31 U.S.C. § 3512)** requires Executive Branch agencies to establish and maintain effective internal control. The heads of agencies must annually evaluate and report on the effectiveness of the internal control (Section 2) and financial management systems (Section 4) that protect the integrity of Federal programs

2.5 **Federal Information Security Management Act (FISMA) (Pub. L. No. 107-296, as amended by Pub. L. No. 108-177)** requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The heads of agencies are required to annually report on the effectiveness of the agencies' security programs. "Significant deficiencies" found under FISMA must also be reported as material weaknesses under FMFIA or as a lack of substantial compliance under FFMIA if related to financial management systems.

2.6 **Generally Accepted Accounting Principles (GAAP)** for Federal government entities are identified in Statement on Auditing Standards (SAS) No. 91, *Federal GAAP Hierarchy*, Amendment to SAS 69, *The Meaning of Present Fairly In Conformity With Generally Accepted Accounting Principles*, which is codified in AU § 411 of the AICPA's Codification of Statements on Auditing Standards. Federal financial statements shall be prepared in accordance with A-136. The requirements of A-136 are generally accepted accounting principles because they constitute "practices that are widely recognized and prevalent in the federal government" under category (D) of the *Federal GAAP Hierarchy*.

2.7 **Independent Auditor** means an auditor who meets the independence standards

specified in the U.S. Government Auditing Standards. An independent auditor may include an agency's Office of Inspector General (OIG) and/or an independent public accountant (IPA).

2.8 **Internal Control** as it relates to the Basic Statements and Required Supplementary Stewardship Information is a process, affected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Statements and Required Supplementary Stewardship Information in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition;
- Compliance with applicable laws and regulations - transactions are executed in accordance with laws governing the use of budget authority and any other laws, regulations, and government-wide policies identified by OMB in Appendix E of this bulletin that could have a direct and material effect on the Basic Statements or Required Supplementary Stewardship Information;
- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

2.9 **Management Letter** means a letter prepared by the auditor which discusses findings and recommendations for improvements in internal control, which were identified during the audit and were not required to be included in the auditors' report on internal control, and other management issues. (See Chapter 5 of the U.S. Government Auditing Standards.)

2.10 **Management's Discussion and Analysis (MD&A)** is a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems.² The MD&A is included in each annual financial statement as required supplementary information. The A-136 provides additional guidance on the composition of the MD&A.

2.11

The below definition of material weakness is effective for periods ending before December 15, 2006.³

Material Weaknesses in Internal Control are reportable conditions in which the design or

² Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*

³ The revision to the definition of material weakness, and related effective date, is consistent with the Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*.

operation of the internal control does not reduce to a relatively low level the risk that errors, fraud or noncompliance in amounts that would be material in relation to the Basic Statements or Required Supplementary Stewardship Information being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The auditor shall use this definition of material weaknesses to report on an entity's internal control in accordance with the requirements of U.S. Government Auditing Standards and this bulletin, rather than the definition of material weaknesses used by management to prepare an agency's FMFIA report.

The below definition of material weakness is effective for periods ending on or after December 15, 2006.

Material Weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote⁴ likelihood that a material misstatement of the financial statements will not be prevented or detected. This definition of material weakness aligns with the definition of the same term used by management to prepare an agency's FMFIA assurance statement.

2.12

The below definition of reportable condition is effective for periods ending before December 15, 2006.

Reportable Conditions are matters coming to the auditor's attention that, in the auditor's judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the objectives of internal control. The term "reportable condition" will be replaced by the term "significant deficiency." (See Significant Deficiency for a revised definition.)

2.13 **Reporting Entity** means one of the executive departments, agencies, government corporations and components of such departments and agencies listed in Appendices A–D, or an agency, bureau, or other organization that represents a meaningful unit for program management, for which a financial statement is prepared, and for which management chose to have an audit performed in accordance with this bulletin.

⁴ The term "remote" is defined in SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as the chance of the future event, or events, occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

2. 14

The below definition of significant deficiency is effective for periods ending on or after December 15, 2006.⁵

Significant Deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote⁶ likelihood that a misstatement of the entity's financial statements that is more than inconsequential⁷ will not be prevented or detected. The term "significant deficiency" will replace the former term of "reportable condition." This definition of "significant deficiency" aligns with the definition of "reportable condition" used by management to prepare an agency's FMFIA assurance statement.

2.15 **U.S. Government Auditing Standards** are those standards issued by the Comptroller General of the United States.

2.16 **U.S. Standard General Ledger (USSGL)** means the uniform chart of accounts prescribed by the Department of the Treasury in its *Treasury Financial Manual* (TFM) (<http://www.fms.treas.gov/ussgl/>).

SECTION 3: FREQUENCY OF AUDIT

Audits shall be performed annually.

SECTION 4: RESPONSIBILITY FOR AUDIT

For purposes of this bulletin, the following responsibilities apply:

4.1 For the 24 major CFO Act executive departments and agencies and selected components of such departments and agencies listed in Appendices A and B, the audits of financial statements shall be performed by the OIG of the executive department or agency or by an IPA as determined by the OIG.

4.2 For the executive branch agencies subject to the ATDA and Government Corporation Control Act, the audits of financial statements shall also be performed by the OIG of the executive department or agency or by an IPA as determined by the OIG. If the agency does not have an OIG, the financial statement audit shall be performed by an IPA as determined by

⁵ The revision to the definition of significant deficiency, and related effective date, is consistent with the SAS 112, *Communicating Internal Control Related Matters Identified in an Audit*.

⁶ The term "remote" is defined in footnote 4.

⁷ A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements. If a reasonable person would not reach such a conclusion regarding a particular misstatement, that misstatement is more than inconsequential.(SAS 112)

management.

4.3 GMRA provides that, in lieu of an audit otherwise required, the Comptroller General of the United States may, at his or her discretion and following consultation with the OIG, perform the audit.

SECTION 5: COMMUNICATION

5.1 There shall be open and timely communication between agency management, including the CFO, and the OIG (and the audit firm, if the audit is contracted out) throughout the audit process. The purpose of this communication is to ensure that all parties are kept up to date on the progress and results of the audit to avoid "surprises" at the end. Matters that should be communicated include, but are not limited to, the following:

- The audit timetable and changes thereto,
- Issues or problems arising in the conduct of the audit, including the inability or difficulty in gaining access to records or lack of cooperation of agency personnel, and
- Potential audit findings as they are developed, including indications of material misstatements or unsupported amounts in the financial statements, reportable conditions/significant deficiencies and material weaknesses in internal control, and noncompliances with laws and regulations.

5.2 In circumstances when material misstatement(s) or likely material misstatement(s) affecting a previously issued financial statement(s) and related audit report are discovered, the auditor shall advise agency management to communicate this discovery to persons who may be relying on the auditors' reports such as legislative or regulatory oversight bodies, federal inspector(s) general, funding entities, and other oversight bodies. (See Sections 7.7 and 7.25-7.27 for further discussions.)

SECTION 6: SCOPE OF THE AUDIT

6.1 Financial statements shall be audited in accordance with U.S. Government Auditing Standards and the provisions of this bulletin.

6.2 The auditor shall determine whether the Basic Statements present fairly, in all material respects, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and, if applicable, custodial activity and social insurance in conformity with the accounting principles generally accepted in the United States.

6.3 If consolidating statements are presented, the auditor shall consider the consolidating statements supplemental information and report in accordance with Section 7, unless the auditor's objective is to express an opinion on the consolidating statements.

6.4 If the auditor is unable to determine whether the Basic Statements are fairly presented because, for example, of the auditor's inability to obtain sufficient competent evidential matter due to inadequate accounting records, the auditor shall, to the extent practical, obtain sufficient evidence about closing balances to enable the auditor to opine on the subsequent year's financial statements.

6.5 The auditor shall perform the procedures described in AU § 558, *Required Supplementary Information*, for the following:

- Management's Discussion and Analysis.
- Required Supplementary Stewardship Information (i.e., Stewardship investments: non-Federal physical property (such as highways), human capital (expenditures for training and education), and research and development).
- Required Supplementary Information.

6.6 The auditor shall assess whether the other accompanying information, or its manner of presentation, is materially inconsistent with the information in the Basic Statements.

6.7 With respect to the internal control objectives (See Section 2.8, definition of internal control.) relating to the Basic Statements and Required Supplementary Stewardship Information, the auditor shall obtain an understanding of the components of internal control (See AU § 319.) and assess the level of control risk relevant to the assertions embodied in the classes of transactions, account balances, and disclosure components of the financial statements. Such controls include relevant information technology (IT) general and application controls and controls relating to intra-entity and intra-governmental transactions and balances. For those internal controls that have been properly designed and placed in operation, the auditor shall perform sufficient tests to support a low assessed level of control risk. (See AU § 319.) Those internal controls that have not been properly designed or placed in operation and those internal controls that are found to be ineffective shall be reported in accordance with Section 7 of this bulletin.

6.8 In obtaining an understanding of the components of internal control, particularly the risk assessment component, and assessing control risk, the auditor shall obtain an understanding of the process by which the agency identifies and evaluates weaknesses required to be reported under FMFIA and related agency implementing procedures.

6.9 The auditor shall compare material weaknesses disclosed during the audit with those material weaknesses reported in the agency's FMFIA report that relate to the financial statements of the entity under audit and document material weaknesses disclosed by audit that were not reported in the agency's FMFIA report. The auditor should consider whether the failure to detect and report material weaknesses constitutes a reportable condition/significant deficiency or material weakness in the entity's internal control.

6.10 With respect to the internal control objective relating to performance measures, the

auditor shall obtain an understanding of the components of internal control relating to the existence and completeness assertions relevant to the performance measures included in the MD&A. Those internal controls that have not been properly designed and placed in operation shall be reported in accordance with Section 7 of this bulletin. The objective of gaining an understanding of internal control in this subparagraph is to report deficiencies in the design of internal control, rather than to plan the financial statement audit.

6.11 With respect to compliance with applicable laws and regulations, the auditor shall perform tests of compliance with laws and regulations, including laws governing the use of budget authority, and any other laws, regulations, and government-wide policies identified by OMB in Appendix E of this bulletin, that could have a direct and material effect on the Basic Statements and Required Supplementary Stewardship Information.

6.12 The auditor shall perform tests of the entity's compliance with FFMIA, section 803(a) requirements. This provision only applies to entities listed in Appendix A. Agencies subject to the ATDA and Government Corporation Control Act are not subject to the requirements of FFMIA, with the exception of government corporations that are also components of one of the 24 major CFO Act agencies. Those government corporations are subject to FFMIA similar to all other components of the CFO Act agencies, including components listed in Appendix B. The government corporations however are not required to report separately on compliance with FFMIA in its management reports.

6.13 The auditor shall obtain written representation from management as part of an audit conducted in accordance with this bulletin. (See AU § 333, *Management Representations*.) In addition to the standard representations included in AU § 333, additional representations are required that are unique to the Federal Government. The additional representations are provided in Section 8 of this bulletin.

Service Organizations

6.14 A service organization is an entity, or component of an entity, that provides services to a user organization in which those services are part of the user organization's information system (e.g., processing of transactions). A user organization is an entity, or component of an entity, whose financial statements are being audited and has engaged a service organization.

6.15 With respect to obtaining assurance on the internal control of a service organization, the auditor of the user organization shall utilize, as necessary, the service organization's auditors' report⁸ on the services provided to the user organization. Service organizations must provide its user organizations with an audit report on whether (1) internal controls were designed properly to achieve specified objectives and placed into operation as of a specified date and (2) the controls that were tested were operating effectively to provide reasonable assurance that the related control objectives were met during the period specified. (See AU § 324, *Service Organizations*.)

6.16 Such audit reports should be submitted to user organizations within a reasonable time to

⁸ Also referred as SAS 70 reports.

allow the auditor of the user organization to use the audit report during the audit of the user organization's financial statements.

SECTION 7: AUDIT REPORT

7.1 An audit report⁹, or separate audit reports, on the Basic Statements, internal control, and compliance shall be prepared at the completion of the audit. The audit report shall be submitted to the agency head in sufficient time to enable the agency head to meet the due date for submitting the audited financial statement which is no later than 45 days after the fiscal year end. The audit results shall be discussed with management as soon as practical but, in any case, prior to issuance of the audit report.

7.2 The audit report(s) shall state that the audit was made in accordance with U.S. Government Auditing Standards and the provisions of this bulletin.

Audit Report

7.3 The audit report(s) shall include either an opinion as to whether the reporting entity's Basic Statements are fairly presented in all material respects in conformity with the accounting principles generally accepted in the United States of America, or a disclaimer of opinion. (See AU § 508.)

7.4 If the Basic Statements are materially affected by a departure from generally accepted accounting principles, the auditor shall issue a qualified or adverse opinion and include an explanatory paragraph that describes the material departure(s) from those standards and, if practical, the effects of the departure(s) on assets, liabilities, and net position; net costs; changes in net position; budgetary resources; reconciliation of net costs to budgetary obligations; and, if applicable, custodial activity and social insurance. If the effects of the departure(s) are disclosed in a note to the Basic Statements, the explanatory paragraph may be shortened by referring to it.

7.5 If the auditor disclaims an opinion, the report shall describe why the auditor was unable to conduct the audit in accordance with U.S. Government Auditing Standards and this bulletin. If material weaknesses and other reportable conditions/significant deficiencies prevented the conduct of the audit in accordance with U.S. Government Auditing Standards and this bulletin, such conditions shall be included in the report on internal control along with recommendations for correcting the condition(s).

7.6 When there is a change in accounting principles, for example, changes to comply with SFFASs, the auditors' report on the Basic Statements shall include an explanatory paragraph identifying the nature of the change and referring the reader to the note to the Basic Statements that discusses the change in detail.

7.7 When there is a restatement of previously-issued financial statements¹⁰, for example, to

⁹ An illustrative auditor's report can be found in the GAO/PCIE FAM Section 500.

¹⁰ SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, instructs agencies on when to issue a restatement.

correct a material misstatement, the auditor shall follow AU § 561. In addition, the auditors' report shall include an emphasis of matter paragraph that clearly describes (1) the nature of the restatement, its effect on the financial statements with a reference to the note to the financial statements that discusses the restatement in detail, and (2) the impact of the restatement on the validity of the previously-issued audit opinion and how the opinion would have been different if the auditor had been aware of this information at the time of the audit. (See Sections 5.2 and 7.25-7.27 for further discussions.)

7.8 With respect to reporting on MD&A, required supplementary stewardship information, and required supplementary information, the auditor shall follow AU § 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents*.

7.9 With respect to reporting on other accompanying information, the auditor shall follow AU § 551.

Report on Internal Control

7.10 A report on internal control shall at a minimum,¹¹ state that, with respect to internal control over financial reporting, the auditor obtained an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of the reporting entity's internal controls.

7.11 The report shall state that, with respect to the internal control objective relating to the performance measures included in the MD&A, the auditor obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether they have been placed in operation.

7.12 The report shall state that either (1) that the objective was not to provide an opinion on internal control and therefore does not express an opinion or (2) that the objective was to provide an opinion on internal control¹² and reference the separate audit report.

7.13 The report shall describe reportable conditions/significant deficiencies and material weaknesses identified during the audit.

7.14 The report shall identify those material weaknesses disclosed by audit that were not reported in the reporting entity's FMFIA report.

Report on Compliance with Applicable Laws and Regulations

7.15 A report on the reporting entity's compliance with applicable laws, regulations, and government-wide policy requirements include noncompliance with laws and regulations

¹¹ An opinion on internal control over financial reporting can be rendered if desired or mandated by statute. An opinion can be issued either in accordance with the AICPA Statements of Standards for Attestation Engagements, AT 501, Codification of Statements on Auditing Standards, or in accordance with Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements*, promulgated by the Public Company Accounting Oversight Board.

¹² Ibid.

disclosed by audit, except for those instances of noncompliance that, in the auditor's judgment, are clearly inconsequential. In meeting this requirement, the auditor shall list those laws and regulations that tests disclosed reportable instances of noncompliance.

7.16 With respect to laws and regulations tested for which the audit disclosed no reportable instances of noncompliance, the report shall state that the audit disclosed no reportable instances of noncompliance with these laws and regulations. A listing of these laws and regulations is not required.

7.17 The report shall state either (1) that the objective was not to provide an opinion on compliance with applicable laws and regulations and therefore does not express an opinion or (2) that the objective was to provide an opinion on compliance and reference the separate audit report.

Compliance with FFMIA

7.18 Section 803(b) of FFMIA requires the auditor to report whether the reporting entity's financial management systems substantially comply¹³ with FFMIA section 803(a) requirements¹⁴. To meet this requirement, for each of the three FFMIA section 803(a) requirements, the audit report shall reflect instances in which the reporting entity's systems did not substantially comply with the requirement, or state that the audit disclosed no instances in which the reporting entity's systems did not substantially comply. If the audit disclosed no instances of substantial noncompliance with any of the three FFMIA section 803(a) requirements, a single statement to this effect is sufficient. Where tests disclosed that the reporting entity's systems did not substantially comply with one or more of the three requirements, the auditors' report on compliance, (or an accompanying schedule that is referenced in the compliance report) should group findings together based on the requirement they relate to (i.e., Federal financial management systems requirements, applicable Federal accounting standards, or the USSGL), as required by FFMIA:

- Identify the entity or organization responsible for the financial management systems that were found not to comply with the requirements.
- Include all facts pertaining to the noncompliance, including the nature and extent of the noncompliance, the primary reason or cause of the noncompliance, and any relevant comments from reporting entity management or employees responsible for the noncompliance.

¹³ Additional guidance on compliance with Section 803(b) of FFMIA can be found on the OMB website, http://www.whitehouse.gov/omb/financial/ffmia_implementation_guidance.pdf. This guidance however is currently under review and will be updated in 2007.

¹⁴ Agencies subject to the ATDA and Government Corporation Control Act are not subject to the requirements of FFMIA, with the exception of government corporations that are also components of one of the 24 major CFO Act agencies. Those specific government corporations are subject to FFMIA similar to all other components of the CFO Act agencies. The government corporations however are not required to report separately on compliance with FFMIA in its management reports, if applicable.

- Provide recommended remedial actions.

Compliance with OMB Circular No. A-123, Appendix A

7.19 The OMB Circular No. A-123, *Management's Responsibility for Internal Control* (A-123) implements the requirements of FMFIA. The A-123 contains Appendix A which lays out an assessment process that management should implement in order to properly assess and improve internal controls over financial reporting. The assessment process should provide management with the information needed to properly support a separate assertion as to the effectiveness of the internal controls over financial reporting, as a subset of the overall FMFIA report.

7.20 Auditors may elect, but are not required to report separately on agencies' compliance with the A-123, Appendix A. If auditors report separately on agencies' compliance with the A-123, Appendix A, minimum indicators for compliance include, but are not limited to:

- Management established an organizational structure to effectively implement, direct and oversee the assessment process. The A-123 suggests a Senior Management Council and a Senior Assessment team or equivalent structures. The oversight of the assessment process may also be incorporated into existing offices or functions within the organization that currently monitor the effectiveness of the organization's internal control.
- Management evaluated controls at the entity level and considered the components of internal control as defined in the A-123 and GAO's *Standards for Internal Control in the Federal Government* (www.gao.gov).
- Management used a reasonable approach to determine the scope of the assessment. The scope of the assessment would include identifying significant financial reports and key processes/controls/transactions.
- Management evaluated and documented the key processes and controls as required by A-123, Appendix A. Management also documented its decisions on determining the scope, materiality, testing methodology, and other significant decisions related to this assessment.
- Management used a reasonable approach to determine what, when, where and how to test the key controls, and the tests and results were properly documented.
- Management used the results of its testing, and considered information gathered during the financial statement audit, to support its conclusion whether internal controls over financial reporting were properly designed and operating effectively.
- Management's assurance statement appropriately describes any scope limitation, and is consistent with the evidence gathered during the testing process, including information gathered during the financial statement audit.

- Management has plans in place and a process to continue assessing controls in accordance with the A-123, Appendix A.
- Management has a process in place to assure prompt and proper implementation of corrective actions to resolve deficiencies in internal controls, including material weaknesses.

7.21 Auditors should also take into consideration that certain agencies elected to complete the A-123, Appendix A assessment over multiple years, which is also permissible under the A-123. For those agencies the following was required:

- Submission of a plan that: (i) states why the agency requires more than one year to execute its plan, (ii) provides for identifying, testing, and assessing a significant percentage of its key business processes and controls in each year, (iii) demonstrates how the agency will meet the A-123, Appendix A requirements by September 2008, and (iv) is reviewed and accepted by OMB;
- Implementation of their A-123 assessment process in substantial accordance with the OMB-approved plan; and
- Submission of an assurance statement by the agency head that accurately reflects the amount of work completed (e.g., agencies that are implementing a multi-year plan will need to identify a scope limitation) and the results of the assessments performed.

Status/Comments/Distribution

7.22 In preparing the audit report(s), the auditor shall report the status of known but uncorrected material findings and recommendations from prior audits that affect the current audit objectives. (See Chapter 4 of U.S. Government Auditing Standards.)

7.23 To the extent practical, the reporting entity shall provide comments on the auditors' findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. These comments shall be included in the report on internal control or report on compliance, as applicable and practical. If corrective actions are not necessary, an explanatory statement shall be included in the applicable audit report.

7.24 Copies of the audit report(s) shall be distributed to the head of the executive department or agency and subsequently included in the department's or agency's Performance and Accountability Report or the corporation's Management Report.

Subsequent Discovery of Facts

7.25 With respect to the subsequent discovery of facts existing at the date of the auditors' report, the auditor shall follow the steps in AU § 561. If the auditor concludes that the

previously-issued audit report is not reliable and action should be taken to prevent future reliance on the report, the auditor shall communicate such facts to the audited entity. The auditor shall also make the appropriate disclosure of the facts to persons who may be relying on the auditor's reports such as legislative or regulatory oversight bodies, federal inspector(s) general, funding entities, and other oversight bodies if the audited entity fails to do so in a timely manner.

7.26 Revised financial statements and the auditors' report(s) should be issued as soon as practical after the effect on the previously issued financial statement and auditor's report can be determined. If the audited entity's subsequent-period financial statements and the related auditors' report will be issued imminently, the appropriate disclosures can be made in the subsequent-period statements instead of reissuing the earlier statements. For this purpose, "imminent" is defined as within 90 calendar days of the subsequent-period financial statements planned issue date. (See Sections 5.2 and 7.7 for further discussions.)

7.27 The A-136 provides guidance on how the audited entity's management should correct errors in the financial statements and the specific information to be included in the financial statement notes when restatement is required.

SECTION 8: MANAGEMENT REPRESENTATION LETTER

8.1 In accordance with AU § 333, *Management Representations*, the auditor shall obtain written representations from management for all financial statements for the periods covered by the auditors' report(s). The auditor shall also obtain a summary of unadjusted misstatements to accompany the management representation letter. In accordance with the A-136, Section V, the management representation letter and accompanying summary of unadjusted misstatements are required for the audits of entity financial statements and the special-purpose financial statements used to compile the *Financial Report of the United States Government (FR)*.

8.2 The management representation letter shall be on the audited entity's letterhead. The representations should be dated in accordance with AU § 333. To ensure the management representation letter is prepared timely, a draft letter should be provided to and discussed with management as early as possible in the audit and updated for circumstances found throughout the audit.

8.3 The management representation letter shall be obtained from the highest levels of the audited entity. The officials who sign the management representation letter should be those who, in the auditor's view, are responsible for and knowledgeable, directly or through others, about the matters in the management representation letter. These officials generally should be the head of the entity, the CFO, and any others deemed responsible for matters presented in the management representation letter.

8.4 The management representation letter shall specify management's materiality threshold, used for reporting items in the management representation letter. Items below this threshold

would not be considered exceptions or reported as such in the representation letter.¹⁵

8.5 The representations to be included in the management representation letter are part of the evidential matter to be considered by the auditor in its audit of the entity's financial statements. The AU § 333 discusses specific representations that should be obtained from management. The representations obtained will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. In addition to the representations given in AU § 333, the auditor generally should consider the need to obtain representations on other matters based on the circumstances of the audited entity. The auditor should refer to the guidance detailed in the Government Accountability Office/President's Council of Integrity and Efficiency (GAO/PCIE) Financial Audit Manual (FAM) Section 1001. The sample management representation letter presented in the GAO/PCIE FAM Section 1001A should be used as guidance and representations should be deleted if inapplicable or customized to the situation of the entity being audited.

8.6 In addition to the representations discussed in the above paragraph, management is required to include a representation that addresses the consistency of budgetary data reported on the Statement of Budgetary Resources and the budgetary data submitted through FACTS II to prepare the year-end SF 133s, *Reports on Budget Execution and Budgetary Resources*. Management shall use the following sample representation:

The information presented on the Department's Statement of Budgetary Resources agrees with the information submitted on the Department's year-end Reports on Budget Execution and Budgetary Resources (SF 133s). This information will be used as input for the fiscal year 20xx actual column of the Program and Financing Schedules reported in the fiscal year 20xz Budget of the U.S. Government. Such information is supported by the related financial records and related data.

8.7 A summary of unadjusted misstatements shall be attached to the entity's management representation letter. Overall guidance on evaluating misstatements is provided in AU § 312, *Evaluating Audit Findings*. A sample schedule of unadjusted misstatements is presented in the GAO/PCIE FAM Section 595D. The schedule shall:

- Identify the effect of the current year's unadjusted misstatements.
- Identify the carry-forward effect of the prior year's unadjusted misstatements.
- Distinguish between those affecting intragovernmental accounts and those affecting accounts with the public.
- Be prepared for each affected department-wide financial statement.

8.8 The management representation letter shall be consistent with the auditors' report(s). If a representation is contradicted by other audit evidence, the auditor shall investigate the circumstances and consider the reliability of the representation. Based on the circumstances, the

¹⁵ Management and the auditor should reach an understanding on a materiality level. For guidelines on establishing the materiality level for the management representation letter, see the GAO/PCIE FAM Section 1001.

auditor shall then consider whether it is appropriate to rely on other management representations.

8.9 The auditor shall also obtain additional written representations, and a summary of unadjusted misstatements, for the special-purpose financial statements used to compile the FR. (See Section 13 and Appendix F, *Illustrative Management Representation Letter for Special-Purpose Financial Statements* of this bulletin for further guidance.)

SECTION 9: LEGAL LETTERS AND MANAGEMENT'S SCHEDULES

9.1 In accordance with AU § 337, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, the auditor shall request entity management to send a letter of inquiry to those lawyers with whom management consulted concerning litigation, claims, and assessments.¹⁶ (See the GAO/PCIE FAM Section 1002B for an illustrative letter of inquiry from entity management to legal counsel.) Management should document in a schedule how the information contained in the legal counsel's response(s) was considered in preparing the financial statements. In accordance with the A-136, Section V, legal letters and management's schedules are required for the audits of entity financial statements and the special-purpose financial statements used to compile the FR.

9.2 Legal counsels shall consider the guidance contained in the American Bar Association's *Statement of Policy Regarding Lawyer's Responses to Auditors' Request for Information* (December 1975) in preparing their responses. (Refer to the Department of Justice website for guidance on how to prepare a legal letter, www.usdoj.gov/civil/forms/forms.htm, and see the GAO/PCIE FAM Section 1002C for an illustrative response letter from legal counsel to the auditor.)

9.3 The auditor's request to entity management to send a letter of inquiry to entity counsel should follow AU § 337, and its interpretations (AUI § 337). Management's schedule should be provided as soon as practical after the legal counsel's response is provided to the auditor.

9.4 To satisfy management's responsibilities under SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended, related to contingent liabilities arising from litigation, and to facilitate the audit thereof, the CFO shall prepare a schedule to document how the information contained in the legal counsel's response was considered in preparing the financial statements. (See the GAO/PCIE FAM Section 1002D for the format to be used for management's schedule.)

9.5 The timing of legal letter requests, responses, and related management's schedules shall be coordinated between entity legal counsel, entity management, and the auditor. All due dates shall be in accordance with the due dates established in the A-136, Section V and Attachment B.

¹⁶ Management and the auditor should agree on a materiality level to use in the letter of inquiry. For guidelines on setting the materiality level for the legal letter see the GAO/PCIE FAM Sections 1002.

9.6 Updated legal responses and management schedules shall only include changes from the interim responses/schedules, or a statement that there are no changes. After applying applicable audit procedures, interim and updated legal letters shall be submitted by the OIG to FMS and GAO no later than the dates established in the A-136, Attachment B. The OIG shall inform FMS, via email, of any subsequent changes in cases that arise after the final representation letter but prior to the end of fieldwork for the government-wide financial statement audit. Contact information for these agencies can be found in the A-136, Attachment C.

SECTION 10: MANAGEMENT LETTER

Other deficiencies in internal control, that are not required to be included in the audit report, but that the auditor considers necessary to communicate, should be separately communicated to management of the reporting entity either orally or in a management letter. If a management letter containing other deficiencies in internal control is issued, the auditor shall refer to that management letter in the auditors' report on internal control. (See Chapter 5 of U.S. Government Auditing Standards.)

SECTION 11: AGREED-UPON PROCEDURES: RETIREMENT, HEALTH BENEFITS, AND LIFE INSURANCE WITHHOLDINGS/CONTRIBUTIONS AND SUPPLEMENTAL SEMIANNUAL HEADCOUNT REPORT SUBMITTED TO THE OFFICE OF PERSONNEL MANAGEMENT (OPM)

11.1 The Agreed-Upon Procedures (AUPs) shall be performed annually in accordance with Statements of Standards for Attestation Engagements, AT § 201, *Agreed-Upon Procedures Engagements*. The AUPs are designed to assist OPM in assessing the reasonableness of the Retirement, Health Benefits, and Life Insurance withholdings/contributions as well as semiannual headcount information submitted by agencies. The sufficiency of the procedures is solely the responsibility of the OIG and the Associate Director for Management and Chief Financial Officer of OPM and shall be applied to the 11 months ended August 31 of each year.

11.2 Refer to <http://www.opm.gov/oig/> for the current AUPs required by OPM.

11.3 The auditor of each payroll provider shall apply the AUPs separately (1) for each entity designated as subject to the CFO Act in Appendix A and (2) each entity not designated as subject to the CFO Act that has 30,000 or more employees.

11.4 Although the auditor must perform the AUPs separately for each applicable entity, the auditor shall combine the results into a single report.

11.5 The auditor of the payroll provider is the principal auditor for the purpose of performing the AUPs. The auditors of customer agencies shall participate to the extent necessary to ensure that the AUPs are performed effectively and within the established timeframes.

11.6 In light of the migration of payroll servicing responsibilities under the e-Payroll initiative, the payroll provider as of March 31 shall be responsible for assuring that the AUPs are performed and reported upon.

11.7 The report on the performance of the AUPs shall be submitted no later than *October 1*. To the extent practical, management's comments on the auditors' findings shall be included in the report.

11.8 If a specific AUP cannot be performed, the auditor must propose to OPM's OIG in writing no later than *July 15* at the address in 11.9 an alternative procedure that would accomplish the AUPs' objectives. In addition, auditors shall notify OPM's OIG by *September 1* of any other anticipated difficulties in completing the procedures and submitting the required report by October 1.

11.9 Questions on the application of the AUPs should be directed to OPM's Financial Policy Staff at (202) 606-0606, or via the Internet at: Finance@opm.gov.

11.10 Agencies shall submit three copies of the report on the application of these procedures to OPM's OIG at the address below or, alternatively, may email the report as a PDF attachment to MREsser@opm.gov, with a cc: to Finance@opm.gov.

U.S. Office of Personnel Management
Office of Inspector General
Room 6400
1900 E Street, N.W.
Washington, DC 20415

SECTION 12: INSPECTOR GENERAL OVERSIGHT

12.1 OIG shall:

- Ensure that audits are performed timely and in accordance with the requirements of this bulletin and audit reports are completed in a timely manner. This responsibility pertains to audits conducted directly by OIG staff and audits conducted by IPAs under contract with the OIG.
- Provide technical advice and liaison to agency officials and IPAs.
- Obtain or conduct quality control reviews of audits performed by IPAs, as necessary, and provide the results, when appropriate, to other interested organizations.
- Monitor and report on management's progress in resolving audit findings related to audits made pursuant to this bulletin, in accordance with the Inspector General Act of 1978, as amended, the provisions of OMB Circular No. A-50, *Audit Followup*, and FFMIA.

12.2 OIG is encouraged to use FAM Section 650 –*Using the Work of Others*, to help design and perform oversight procedures when using IPAs and other specialists in the audit of agency

financial statements.

SECTION 13: AUDIT OF THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

13.1 The GMRA requires the Secretary of the Treasury, in coordination with the Director of the OMB, to annually prepare and submit to the President and the Congress an audited financial statement for the preceding fiscal year for the executive branch of the United States Government, namely the FR.

13.2 The Department of the Treasury's Financial Management Service (FMS) prepares the FR using special-purpose financial statements and accompanying notes submitted by the significant entities¹⁷ to the FR and adjusted trial balances from the remainder of the entities included in the FR.

13.3 The special-purpose financial statements include the reclassified balance sheet, statement of net cost and statement of changes in net position and the accompanying notes. Beginning with fiscal year 2006, new note disclosures are required for social insurance information and intragovernmental account balances. The special-purpose financial statements and accompanying notes are required to be audited and audit reports are to be submitted to the FMS, OMB and GAO. An illustrative auditors' report is provided in Appendix G.

13.4 Audits shall be performed annually and on comparative statements. For agencies in the initial year of implementation, the audit shall apply only to that initial year's special-purpose financial statements and accompanying notes.

13.5 For purposes of this section, the significant entities to the FR, as identified in the TFM Chapter 4700, shall subject their special-purpose financial statements to an audit by the OIG of the agency or by an independent auditor IPA as determined by the OIG. If the agency does not have an OIG, the financial statement audit shall be performed by an IPA as determined by management.

13.6 Communication during the audit of the special-purpose financial statements shall follow the same principles as defined in Section 5 of this bulletin.

13.7 The special-purpose financial statements shall be audited in accordance with U.S. Government Auditing Standards and the provisions of this bulletin. The audit of the special-purpose financial statements shall encompass and leverage the audit work performed relative to the general purpose financial statements (referred to as "basic statements and related notes" elsewhere in the bulletin). The purpose of the audit of the special-purpose financial statements

¹⁷ The significant entities to the Financial Report of the U.S. Government (FR) are identified in the Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, <http://www.fms.treas.gov/factsi/index.html> and the A-136 www.whitehouse.gov/omb. The significant entities to the FR are referenced in the TFM as the "verifying agencies," in relation to their responsibilities within the Government-wide Financial Report System (GFRS).

is not to duplicate the audit work performed relative to the general purpose financial statements, but to provide an additional level of assurance on the process of reclassifying the agencies audited general purpose financial statements to the formats of the special-purpose financial statements pursuant to the presentation requirements set forth in the TFM Chapter 4700.

13.8 The auditor shall determine whether the special-purpose financial statements and accompanying notes fairly present, in all material respects, the financial position, net costs and changes in net position, in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.

13.9 The internal control relating to the special-purpose financial statements reporting shall encompass the internal control relating to the general purpose financial statements, upon which the special-purpose financial statements are based. The auditor shall also obtain an understanding of the internal control over the financial reporting process for the special-purpose financial statements and perform tests of those controls. Providing an opinion on the internal control relating to the special-purpose financial statements reporting is not an objective of this audit.

13.10 The reporting on compliance with laws and regulations shall encompass the compliance reporting related to the general purpose financial statements upon which the special-purpose financial statements are based. In addition, with respect to compliance with the TFM Chapter 4700, the auditor shall perform tests of compliance with that chapter that could have a direct and material effect on the special-purpose financial statements. Providing an opinion on the compliance with the TFM Chapter 4700 requirements is not an objective of this audit.

13.11 The auditor shall obtain written representations from management as part of an audit conducted in accordance with this bulletin. It is encouraged that the audit of the financial reporting process for the special-purpose financial statements be conducted simultaneously with the audit of the general purpose financial statements. In this circumstance, management may combine its representations for the audits of the special-purpose financial statements and the general purpose financial statements. (See Appendix F: *Illustrative Management Representation Letter for the Special-Purpose Financial Statements.*)

13.12 A summary of unadjusted misstatements shall also be attached to the management representation letter. Agencies shall use the schedule submitted with the management representation letter for the entity's audit and include an additional column identifying the effect of the current year's unadjusted misstatements on the FR.

13.13 The management representations and related summary of unadjusted misstatements shall be submitted to Treasury, GAO and OMB by the due dates listed in the A-136, Attachment B.

Audit Report

13.14 An auditors' report(s) on the special-purpose financial statements, internal control over the financial reporting process for the special-purpose financial statements, and compliance with TFM Chapter 4700 shall be prepared at the completion of the audit in accordance with U.S.

Government Auditing Standards and this bulletin. The audit report shall be submitted to the agency head in sufficient time to enable the agency head to meet the due date for submitting the audited special-purpose financial statements no later than the date specified in the A-136, Attachment B. The audit results shall be discussed with management as soon as practicable but, in any case, prior to issuance of the audit report. The audit report shall state that the audit was made in accordance with U.S. Government Auditing Standards and the provisions of this bulletin.

13.15 The audit report shall include an opinion as to whether the reporting entity's special-purpose financial statements are fairly presented in all material respects in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700, or a disclaimer of opinion. (See AU § 623.)

13.16 If the special-purpose financial statements are materially affected by a departure from the presentation requirements of the TFM Chapter 4700, the auditor shall issue a qualified or adverse opinion and include an explanatory paragraph that describes the departure(s) from those standards and, if practical, the effects of any material departure(s) on assets, liabilities, and net position; net costs and changes in net position. If the effects of the departure(s) are disclosed in a note to the special-purpose financial statements, the explanatory paragraph may be shortened by referring to that note.

13.17 If the auditor disclaims an opinion, the report shall describe why the auditor was unable to conduct the audit in accordance with U.S. Government Auditing Standards and this bulletin. If material weaknesses and other reportable conditions/significant deficiencies prevented the conduct of the audit in accordance with U.S. Government Auditing Standards and this bulletin, such conditions shall be included in the section on internal control, along with recommendations for correcting the condition(s). The report shall also include an explanatory paragraph that describes any material departure(s) from the presentation requirements of the TFM Chapter 4700 and, if practical, the effects of the departure(s) on assets, liabilities, and net position; net costs and changes in net position. If the effects of the departure(s) are disclosed in a note to the special-purpose financial statements, the explanatory paragraph may be shortened by referring to that note.

13.18 With respect to reporting on other data, the auditor shall follow AU § 551.

Section on Internal Control

13.19 The auditor shall state that, with respect to internal control over the financial reporting process for the special-purpose financial statements, the auditor obtained an understanding and performed tests of the reporting entity's internal controls.

13.20 The auditor shall describe reportable conditions/significant deficiencies and material weaknesses identified during the audit of the special-purpose financial statements.

13.21 The section shall state that providing an opinion on internal control over the special-purpose financial statements reporting was not an objective of the audit.

13.22 The section shall reference the report on internal control that was issued as part of the audit of the general purpose financial statements.

Section on Compliance with the TFM

13.23 The auditor shall report noncompliance with the TFM Chapter 4700 disclosed by audit, except for those instances of noncompliance that, in the auditor's judgment, are clearly inconsequential.

- Include all facts pertaining to the noncompliance, including the nature and extent of the noncompliance, the primary reason or cause of the noncompliance, and any relevant comments from reporting entity management or employees responsible for the noncompliance.
- Provide recommended remedial actions.

13.24 In the event the audit disclosed no reportable instances of noncompliance, the section shall state that the audit disclosed no reportable instances of noncompliance with the TFM Chapter 4700.

13.25 The section shall state that providing an opinion on compliance was not an objective of the audit.

13.26 The section shall reference the report on compliance with laws and regulations that was issued as part of the audit of the general purpose financial statements.

Status/Comments/Distribution

13.27 In preparing the audit report(s), the auditor shall report the status of known but uncorrected material findings and recommendations from prior audits that affect the current audit objectives. (See Chapter 4 of U.S. Government Auditing Standards.)

13.28 The reporting entity shall provide comments on the auditors' findings and recommendations included in the audit report, including corrective actions taken or planned and comments on the status of corrective actions taken on prior findings. To the extent practical, these comments shall be included in the audit report, as applicable. If corrective actions are not necessary, an explanatory statement shall be included in the applicable audit report.

13.29 Specified documents are required to be submitted with the audit report. (Refer to the TFM Chapter 4700 for a complete listing.)

13.30 Copies of the audit report shall be distributed to the head of the executive department or agency and simultaneously submitted to the FMS, OMB, and GAO, no later than the date specified in the A-136, Attachment B.

Management Letter

13.31 Other deficiencies in internal control, that are not required to be included in the audit report, but that the auditor considers necessary to communicate, should be separately communicated to management of the reporting entity either orally or in a management letter (see Chapter 5 of U.S. Government Auditing Standards). If a management letter containing other deficiencies in internal control over the financial reporting process for the special-purpose financial statements is issued, the auditor shall refer to that management letter in the auditors' report.

Agreed-Upon Procedures: Intragovernmental Balances

13.32 Intragovernmental balances and transactions are a key component in the consolidation of the financial information submitted by Federal entities and in the overall compilation process of the FR. Intragovernmental balances include transactions between Federal entities such as services or goods sold, transfers of assets or budget authority, investments or borrowings with the Department of the Treasury, and benefit-related transactions with the Department of Labor and the Office of Personnel Management.

13.33 Auditors may elect, but are not required, to perform the AUP on intragovernmental balances. The AUP are included in the TFM Chapter 4700 and if performed, should be submitted to FMS, OMB and GAO by the due date listed in the A-136, Attachment B.

SECTION 14: SIGNIFICANT DUE DATES FOR FINANCIAL STATEMENTS AND RELATED REPORTS

For a complete list of year-end financial reports and their respective due dates, please refer to the A-136, Attachment B.

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APPENDIX A

EXECUTIVE DEPARTMENTS AND AGENCIES SUBJECT TO THE CHIEF FINANCIAL OFFICERS (CFO) ACT REQUIRED TO PREPARE FINANCIAL STATEMENTS

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Homeland Security
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs
Agency for International Development
Environmental Protection Agency
General Services Administration
National Aeronautics and Space Administration
National Science Foundation
Nuclear Regulatory Commission
Office of Personnel Management
Small Business Administration
Social Security Administration

APPENDIX B

COMPONENTS OF EXECUTIVE DEPARTMENTS AND AGENCIES REQUIRED TO PREPARE FINANCIAL STATEMENTS¹⁸

Department of Agriculture

- Food and Nutrition Service
- Forest Service
- Rural Development Mission Area

Department of Defense

- Department of Army General Funds
- Department of Navy General Funds
- Department of Air Force General Funds
- Military Retirement Fund
- U.S. Army Corps of Engineers Civil Works Program
- Department of Army Working Capital Fund
- Department of Navy Working Capital Fund
- Department of Air Force Working Capital Fund

Department of Health and Human Services

- Centers for Medicare & Medicaid Services

Department of Transportation

- Federal Aviation Administration
- Highway Trust Fund

Department of the Treasury

- Internal Revenue Service

Office of Personnel Management

- Civil Service Retirement and Disability Fund
- Federal Employees Health Benefits Program
- Federal Employees Life Insurance Program

¹⁸ The requirement for components to prepare financial statements may be satisfied by presenting the components separately in consolidating agency-wide financial statements and conducting an audit, in accordance with this Bulletin, at the consolidating financial statement level.

**EXECUTIVE AGENCIES SUBJECT TO THE ACCOUNTABILITY OF TAX DOLLARS
ACT REQUIRED TO PREPARE FINANCIAL STATEMENTS**

Advisory Council on Historic Preservation
African Development Fund
Appalachian Regional Commission
Architectural and Transportation Barriers Compliance Board
Armed Forces Retirement Home
Barry Goldwater Scholarship and Excellence in Education Fund
Broadcasting Board of Governors
Central Intelligence Agency
Chemical Safety and Hazard Investigation Board
Christopher Columbus Fellowship Foundation
Commission on Civil Rights
Commission of Fine Arts
Commission on Ocean Policy
Commission for the Preservation of America's Heritage Abroad
Committee for Purchase from People Who Are Blind or Severely Disabled
Commodities Futures Trading Commission
Consumer Product Safety Commission
Court Services and Offender Supervision Agency for DC
Defense Nuclear Facilities Safety Board
Delta Regional Authority
Denali Commission
Equal Employment Opportunity Commission
Farm Credit Administration
Farm Credit System Financial Assistance Corporation
Farm Credit System Insurance Corporation
Federal Communications Commission
Federal Election Commission
Federal Financial Institutions Examination Council Appraisal Subcommittee
Federal Housing Finance Board
Federal Labor Relations Authority
Federal Mediation and Conciliation Service
Federal Mine Safety and Health Review Commission
Federal Retirement Thrift Investment Board
Federal Trade Commission
Harry S. Truman Scholarship Fund
Institute of American Indian and Alaska Native Culture and Arts Development
Institute of Museum and Library Services
Inter-American Foundation
James Madison Memorial Fellowship Foundation
Japan-U.S. Friendship Commission

**EXECUTIVE AGENCIES SUBJECT TO THE ACCOUNTABILITY OF TAX
DOLLARS ACT REQUIRED TO PREPARE FINANCIAL STATEMENTS**

Marine Mammal Commission
Merit Systems Protection Board
Morris K. Udall Scholarship and Excellence in National Environmental
Policy Foundation
National Archives and Records Administration
National Capital Planning Commission
National Commission on Libraries and Information Science
National Council on Disability
National Credit Union Administration
National Endowment for the Arts
National Endowment for the Humanities
National Labor Relations Board
National Mediation Board
National Transportation Safety Board
National Veterans Business Development Corporation
Nuclear Waste Technical Review Board
Occupational Safety and Health Review Commission
Office of Government Ethics
Office of Navajo and Hopi Indian Relocation Commission
Office of Special Counsel
Peace Corps
Presidio Trust
Railroad Retirement Board
Securities and Exchange Commission
Selective Service System
Smithsonian Institution (SI)
SI/John F. Kennedy Center for the Performing Arts
SI/National Gallery of Arts
SI/Woodrow Wilson International Center for Scholars
Trade and Development Agency
U.S. Court of Appeals for Veterans Claims
U.S. Holocaust Memorial Museum
U.S. Interagency Council on Homelessness
U.S. International Trade Commission
Vietnam Education Foundation
White House Commission on the National Moment of Remembrance

APPENDIX D

GOVERNMENT CORPORATIONS REQUIRED TO PREPARE FINANCIAL STATEMENTS

Commodity Credit Corporation
Community Development Financial Institutions Fund
Corporation for National and Community Service
Export-Import Bank of the United States
Federal Crop Insurance Corporation
Federal Deposit Insurance Corporation
Federal Home Loan Banks
Federal Housing Administration Fund
Federal Prison Industries, Incorporated
Financing Corporation
Government National Mortgage Association
Millennium Challenge Corporation
National Credit Union Administration Central Liquidity Facility
Overseas Private Investment Corporation
Pension Benefit Guaranty Corporation
Rural Telephone Bank
Resolution Funding Corporation
Saint Lawrence Seaway Development Corporation
Tennessee Valley Authority

APPENDIX E

GENERAL LAWS¹⁹

- Anti-Deficiency Act (codified as amended in 31 U.S.C. §§ 1341, 1342, 1351, 1517)
31 U.S.C. § 1341(a)(1)(A) and (C)
31 U.S.C. § 1517 (a)
- Federal Credit Reform Act of 1990, Pub. L. No. 101-508, 104 Stat. 1388-610 (codified in various sections of title 2, United States Code)
2 U.S.C. § 661(b) and (e)
- Federal Financial Management Improvement Act of 1996 (FFMIA), Pub. L. No. 104-208, title VIII
- Pay and Allowance System for Civilian Employees as provided primarily in Chapters 51-59 of title 5, United States Code
5 U.S.C. §§ 5332 and 5343
29 U.S.C. § 206
- Prompt Payment Act (codified as amended in 31 U.S.C. §§ 3901-3907)
31 U.S.C. § 3902(a), (b), and (f)
31 U.S.C. § 3904
- Provisions Governing Claims of the United States Government as provided primarily in sections 3711 through 3720E of title 31, United States Code (including provisions of the Debt Collection Improvement Act of 1996, Pub. L. No. 104-134, 110 Stat. 1321-358, which also is codified in various sections of titles 5, 18, 26, 28, 31, and 42, United States Code)
31 U.S.C. § 3711
31 U.S.C. § 3717 (a), (b), (c), (e) and (f)
31 U.S.C. § 3719

¹⁹ The auditor is not expected to test all provisions of each law presented. However, the auditor is expected to test, at a minimum, the provisions cited above.

APPENDIX F

ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER FOR THE SPECIAL-PURPOSE FINANCIAL STATEMENTS

[Entity Letterhead]

[Date of auditor's report]

[Name and title of head of audit organization]

[Address of audit organization]

Dear [name of head of audit organization]:

This letter is in connection with your audits of the [name of Federal agency]'s special-purpose financial statements, including the reclassified balance sheet as of [end of years covered by special-purpose financial statements] and the related statements of net cost and changes in net position for the year then ended for the purpose of expressing an opinion as to whether the special-purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles and the presentation requirements set forth in the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits, which these representations are as of the date of your auditor's report, and pertain to the periods covered by the special-purpose financial statements.

1. We are responsible for the fair presentation of the special-purpose financial statements in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.
2. The special-purpose financial statements are fairly presented in conformity with the accounting principles generally accepted in the United States of America and the presentation requirements set forth in the TFM Chapter 4700.

If there are instances of departures from generally accepted accounting principles or noncompliance with the requirements set forth in the TFM Chapter 4700, this statement should be modified to disclose all known instances of departure or noncompliance.

3. We have made available to you, all financial records and related data relevant to the reclassification of [name of Federal agency]'s audited, consolidated department-level financial statements to the reclassified special-purpose financial statements and accompanying notes as prescribed in the TFM Chapter 4700.
4. There are no material transactions that have not been properly reclassified in the special-purpose financial statements or disclosed in the notes to the financial statements.

5. We are responsible for establishing and maintaining internal control over the special-purpose financial statement reporting process and complying with the requirements set forth in the TFM Chapter 4700.
6. Those controls in place on September 30, 20XX [or date of latest audited financial statements] provided reasonable assurance that the foregoing objectives are met.

If there are material weaknesses in internal control over the special-purpose financial statement reporting process, the foregoing representation should be modified to read: “Those controls in place on September 30, 20XX, provided reasonable assurance that the foregoing objectives are met except for the effects of the material weaknesses discussed below (or in the attachment),” or a statement that “internal controls are not effective” or “do not meet the foregoing objectives.”

[Signed by Agency Head]

[Signed by Chief Financial Officer]

**ILLUSTRATIVE INDEPENDENT AUDITORS' REPORT ON SPECIAL-PURPOSE
FINANCIAL STATEMENTS**

We have audited the accompanying reclassified balance sheet as of September 30, [*insert years*] and the related reclassified statements of net cost and changes in net position for the year then ended (hereinafter referred to as the special-purpose financial statements) contained in the special-purpose closing package of [*name of Federal Agency*]. These special-purpose financial statements are the responsibility of [*name of Federal Agency*]'s management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700, as described in note X, solely for the purpose of providing financial information to the U.S. Department of the Treasury and U.S. Government Accountability Office to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of [*name of Federal Agency*]'s financial statements.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of [*name of Federal Agency*] as of September 30, [*insert year(s)*], and its net costs and changes in net position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

The information included in the Other Data is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by the TFM Chapter 4700. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methodology and presentation of this information. We also reviewed such information for consistency with the related information presented in [*name of federal agency*]'s financial statements. However, we did not audit this information, and accordingly, we express no opinion on it.

In accordance with U.S. Government Auditing Standards and OMB Bulletin No. 06-03, as amended, we have also issued reports²⁰ dated [*insert date*] on our consideration of [*name of Federal Agency*]’s internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general purpose financial statement reporting performed in accordance with U.S. Government Auditing Standards and OMB Bulletin No. 06-03, as amended, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered [*name of Federal Agency*]’s internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including Other Data, and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the [*name of Federal Agency*]’s ability to record, process, summarize, and report financial data consistent with the assertions made by management in the special-purpose financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the special-purpose financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under U.S. Government Auditing Standards and OMB Bulletin No. 06-03, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

²⁰ If an agency’s auditor issues a combined report that includes the audit report on the financial statements, the report on internal control over financial reporting and compliance with certain provisions of laws and regulations, then the language in this section should be modified accordingly.

This report is intended solely for the information and use of [*name of Federal Agency*], the U.S. Department of the Treasury, the Office of Management and Budget and the U.S. Government Accountability Office in connection with the preparation and audit of the Financial Report of the U.S. Government and is not intended to be and should not be used by anyone other than these specified parties.

[*Signature*]

[*Date*]

Notes to the Special-Purpose Financial Statements

Note X - Special-Purpose Financial Statement Requirements

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the Government Management Reform Act of 1994 (GMRA) (Pub. L. No. 103-356), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. The TFM Chapter 4700 requires agencies to:

1. Reclassify all items and amounts on the audited consolidated, department-level balance sheet, statements of net cost, changes in net position/income statement and custodial activity, if applicable, to the special-purpose financial statements;
2. Disclose special-purpose financial statement line item amounts identified as Federal by trading partner and amount (amounts should be net of intra-agency and intra-departmental eliminations);
3. Disclose notes required by Balance Sheet line items and other notes required in the Financial Report of the U.S. Government (FR); and
4. Disclose other data not contained in the primary FR financial statements and notes required to meet GAAP requirements.